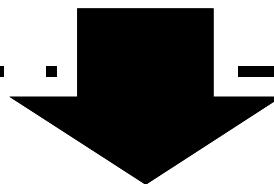
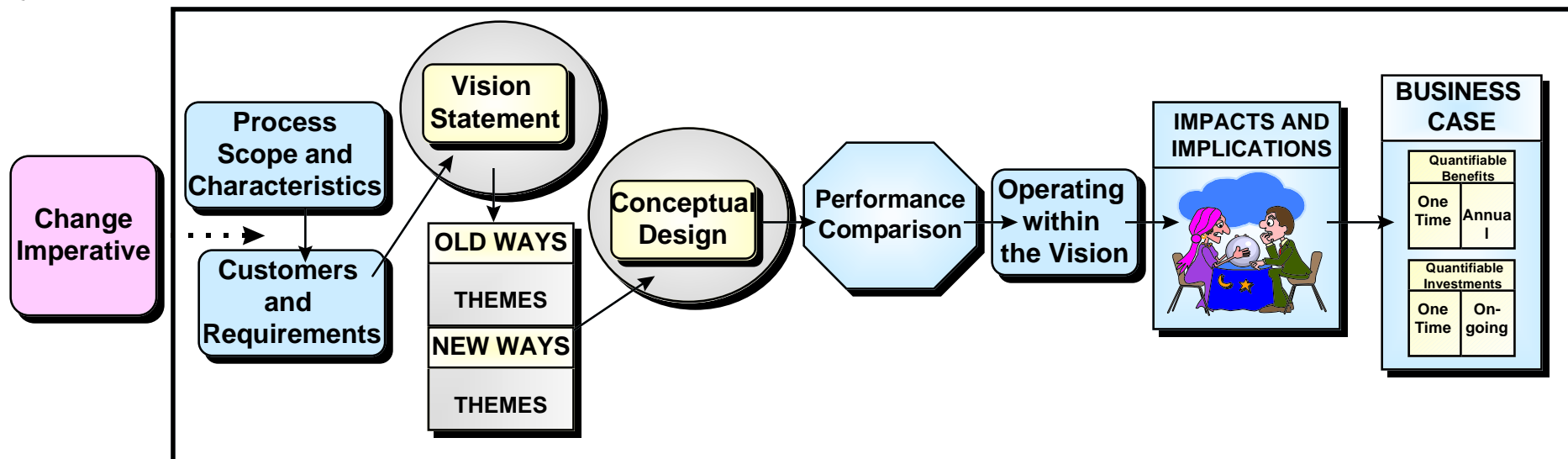
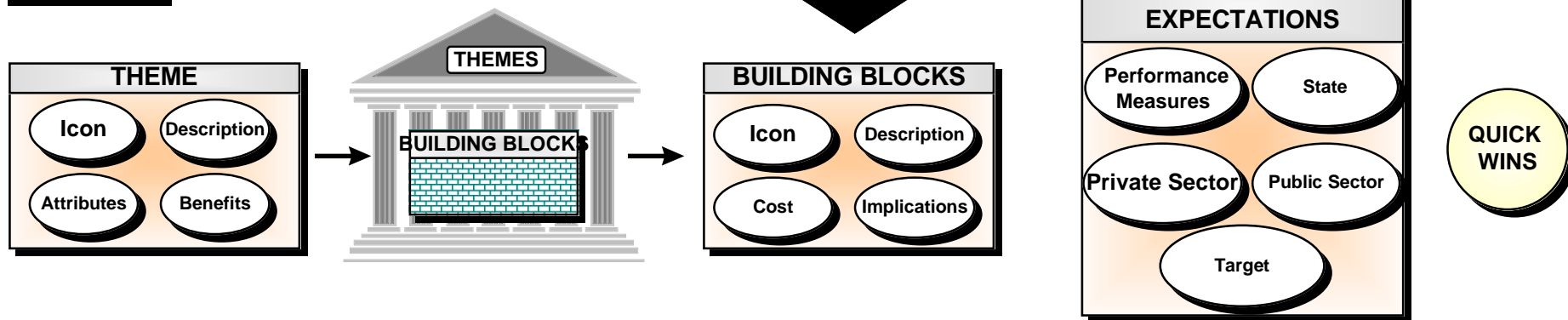


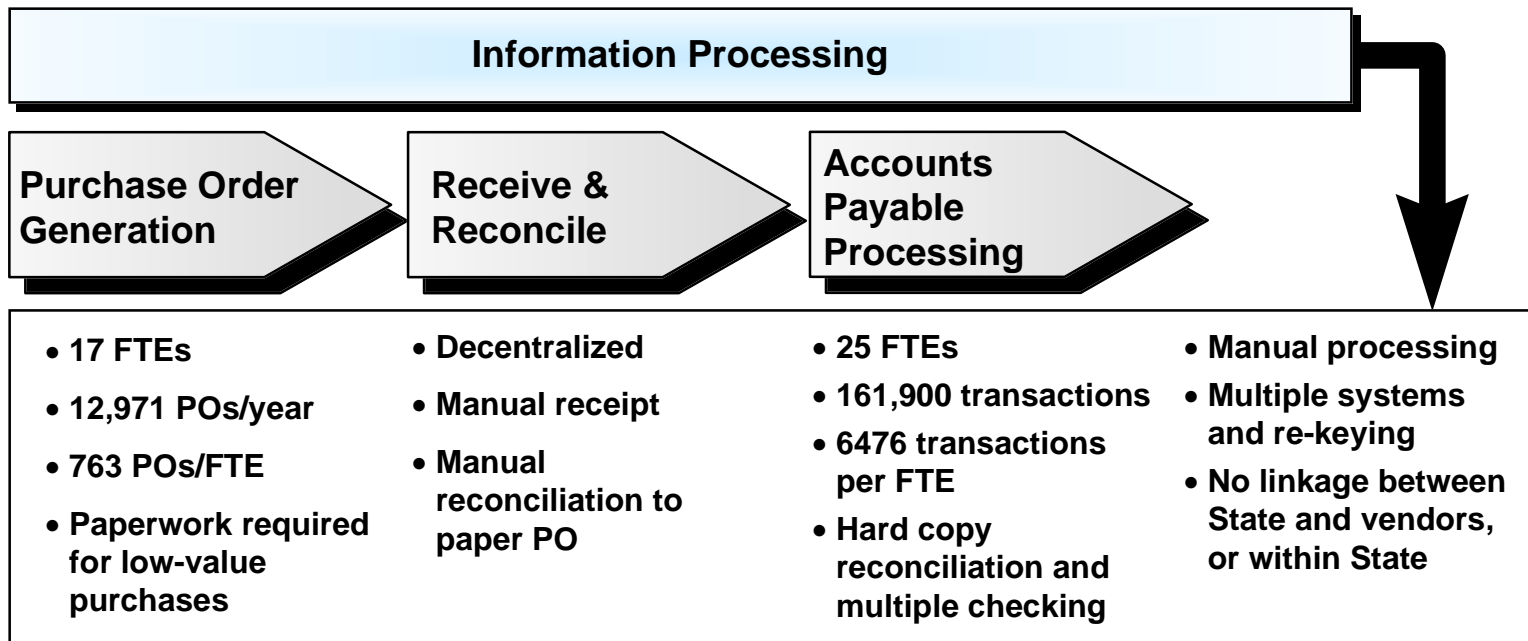
E. Purchase to Payment Process Vision



Appendix C



Process Scope and Characteristics



- Purchase Order creation to payment of Invoice involves almost 40 steps.
- Entire process requires approximately 7 approvals and 5 “re-keys”.
- 800 Purchase Orders and 6,500 Accounts Payable Transactions per FTE.
- Although out of scope, Fixed Asset and Inventory Management System (PAMS) is inadequate and unable to meet the State’s needs.
- State spends more than \$443,000,000 per annum on Operating Expenses and Equipment.



Customers and Requirements

WHO ARE THE PROCESS CUSTOMERS?	WHAT THEY VALUE?
End-Users with Simple Procurement Needs	<ul style="list-style-type: none"> • Value for Money • On-time Delivery • Fast Delivery • Ease of Purchasing
End-Users with Complex Procurement Needs	<ul style="list-style-type: none"> • Expert Support and Information • On-time Delivery • Value for Money • Flexibility • Accurate Information • Good Vendor Relationships
Managers	<ul style="list-style-type: none"> • Informative and Accessible Management Information • Accuracy • Ability to measure Process and Employee Performance
Central Purchasing	<ul style="list-style-type: none"> • Ease of access to Statewide and Vendor Information • High Quality and Accessible Management Information • Quality of Goods • Value for Money • Agency Satisfaction (Agency and Vendor) • Consistent Application of Purchasing Policies and Procedures • Accurate Matching of Invoices to Vendor Contracts or Purchase Orders • Good Vendor Relationships



Customers and Requirements

WHO ARE THE PROCESS CUSTOMERS?	WHAT THEY VALUE?
Vendors	<ul style="list-style-type: none"> • Ease of Access to Information on State Opportunities • Equal Access to State Bids and RFPs • Single Point of Contact for Enquiries and Dispute Resolution • Flexibility in Contracting Arrangements • Good Relationships with Central Purchasing and Agency Customers
Tax Payers/General Public	<ul style="list-style-type: none"> • Value for their Tax Dollars • Prudence in the use of Taxpayers Funds
Legislators	<ul style="list-style-type: none"> • Purchasing Policies and Practices that Serve their Constituents • Purchasing Practices that meet the requirements of the law and serve the best interests of the State and its Citizens
Auditors	<ul style="list-style-type: none"> • Purchasing Practices that meet the requirements of the law and serve the best interests of the State and its Citizens • Audit Trail that provides sufficient information to allow them to focus on High Impact areas
Governor	<ul style="list-style-type: none"> • Satisfied Constituents • Fair access to State Procurement for all interested Vendors

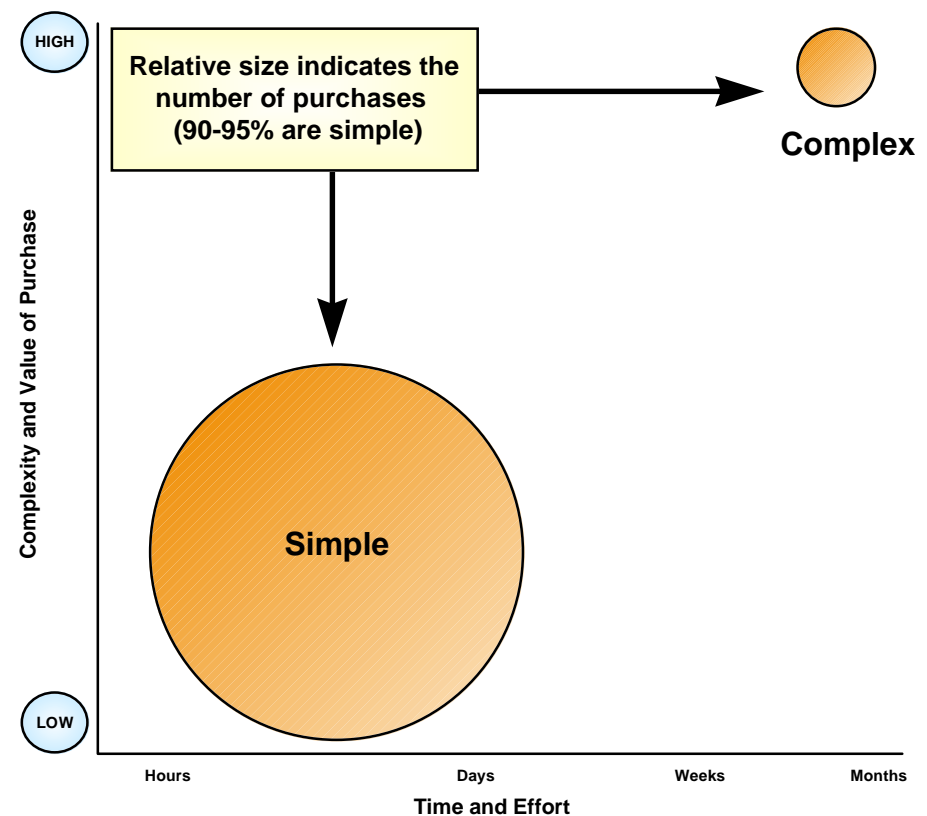


Customers and Requirements

Segment Analysis

- **Procurement** has been broken down into two categories, simple and complex.
- **Simple Procurement** includes low value and easy to purchase goods or services that can be directly purchased without multiple approvals or involvement of Purchasing Professionals.
- **Simple Procurement**, because of the high transaction volumes and low value, is characterized by high levels of automation and end user empowerment.
- **Complex Procurement** includes high value and complex purchases (competitive bids or complex requirements) of goods and services that could benefit from the expertise of Purchasing Professionals and are mandated by policy to be performed in a more formal manner.
- **Complex Procurement** is characterized by analysis of procurement and vendor options and support from the Purchasing Center of Excellence.

The cycle time for Simple Procurement ranges from hours to days while Complex Procurement usually takes weeks to months to complete. Simple Procurement accounts for 90-95% of purchase transactions.





Vision Statement

The following vision statement describes the desired future for the Purchase to Payment Process.

- **The Purchase to Payment Process will be world class, cost efficient, and highly automated to optimize the value of State purchases and provide complete, accurate, and timely information and reports that are of value to managers. The process will begin with the identification of a need and conclude with payment to the vendor.**
- **Simple purchases will be performed by the end user within the limits of delegated authority and with the assistance of such tools as an enterprise wide information system, EDI, electronic and standardized purchasing templates.**
- **Complex purchases will be undertaken with input of the acquiring agency and the support and expertise of the Purchasing Center of Excellence.**

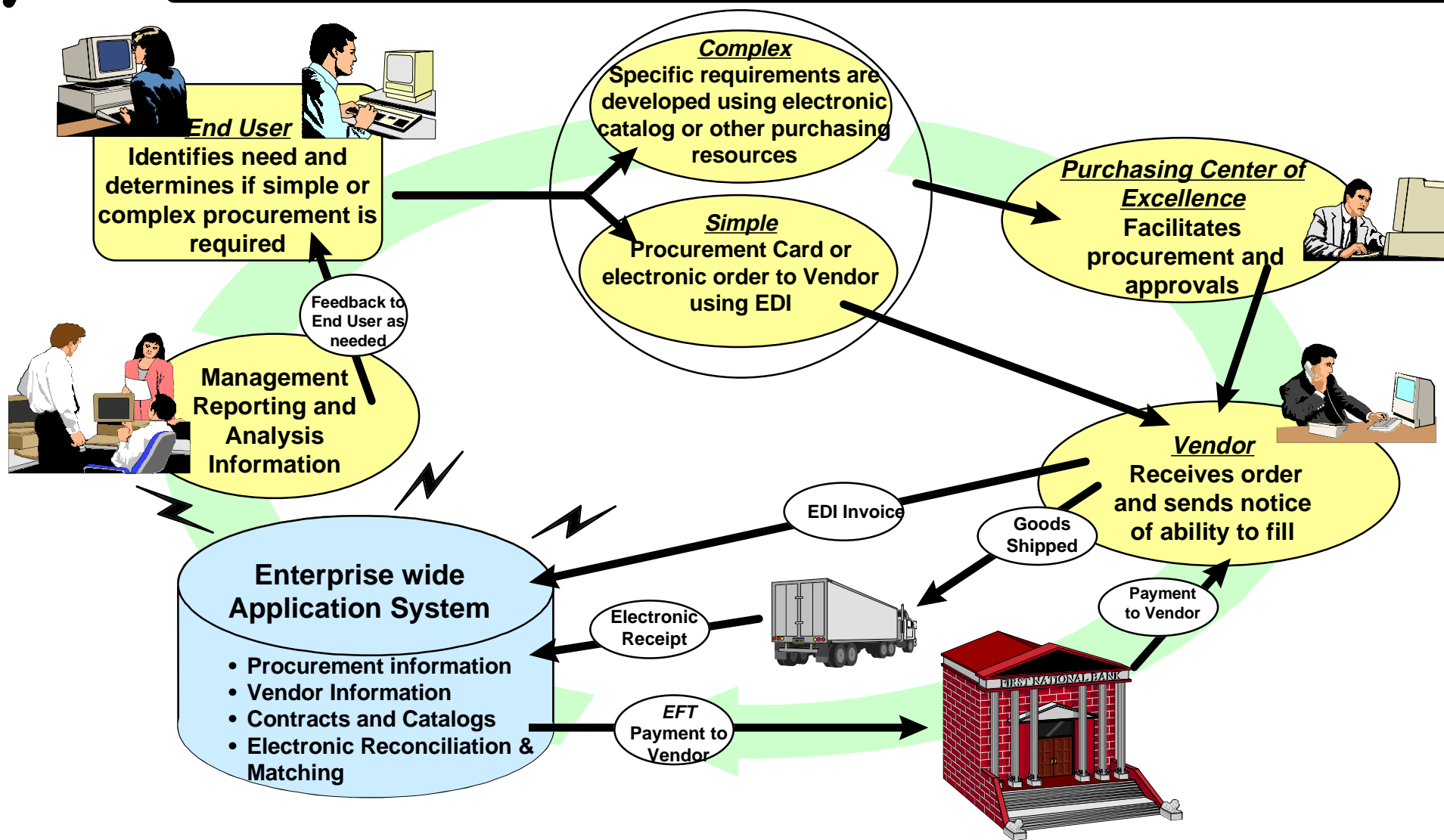


Old Way Themes versus New Way Themes

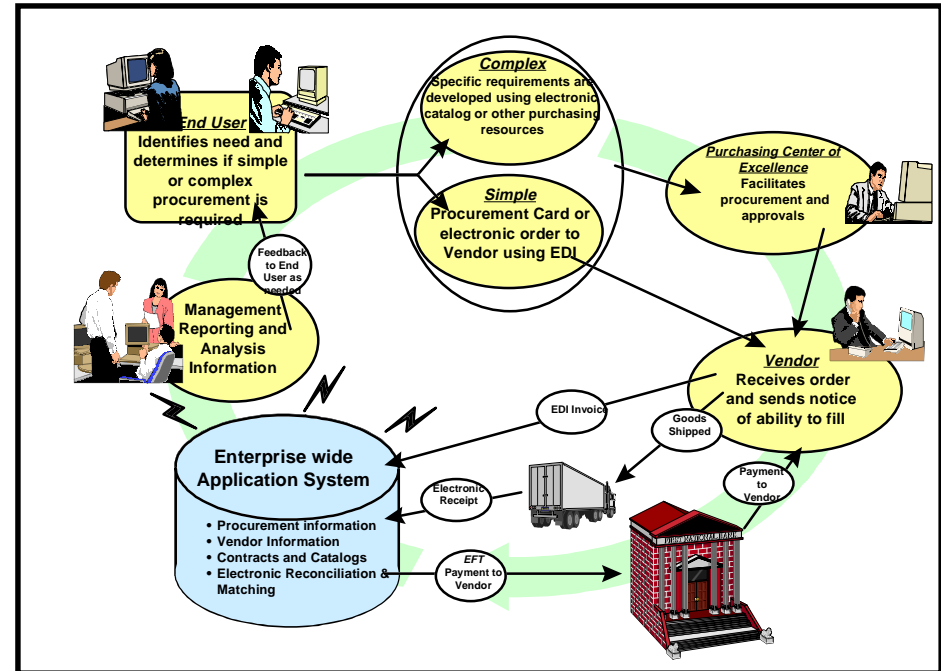
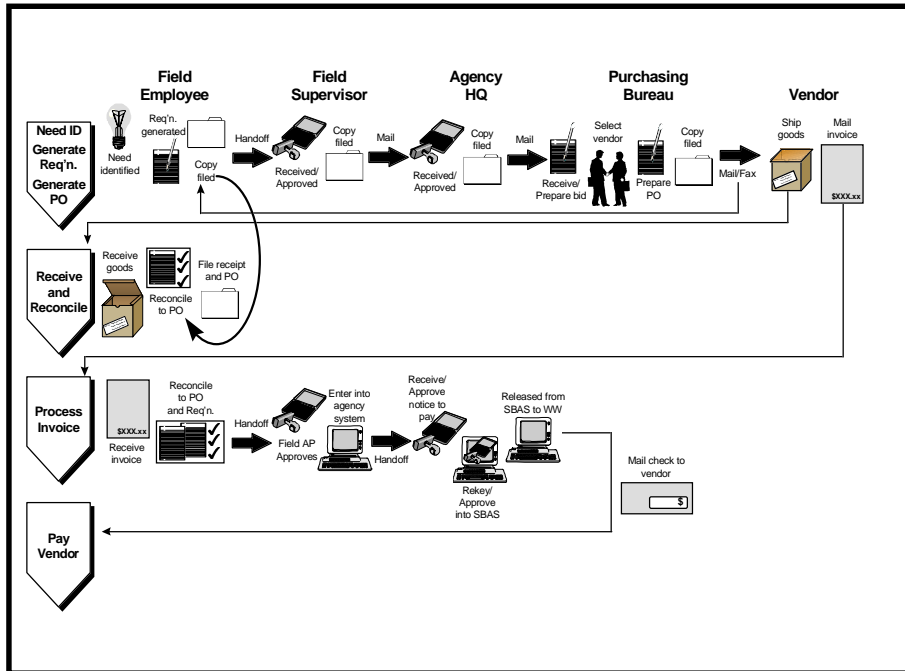
The Purchase to Payment Process will be characterized by empowered employees, automation, integration and flexible policies.

OLD WAY	NEW WAY
<ul style="list-style-type: none"> • Limited authority, micro-management, many non value-added approvals - control and regulate mentality. 	<p>→</p> <ul style="list-style-type: none"> • Accountable employees empowered to make Purchase to Payment decisions.
<ul style="list-style-type: none"> • Paper-based processes and forms with multiple paper files, manual reconciliation, and manual payments. 	<p>→</p> <ul style="list-style-type: none"> • Purchase to Payment Process automated to enable online processing and reduce non value-added manual activities and reconciliations.
<ul style="list-style-type: none"> • Standalone systems and processes, slow, paper-based information, reports, lots of re-keying and little integration between processes. 	<p>→</p> <ul style="list-style-type: none"> • Efficient and fully integrated systems and processes with single point of data entry and reduced handoffs.
<ul style="list-style-type: none"> • Inadequate and frustrating access to information needed by management. 	<p>→</p> <ul style="list-style-type: none"> • User-friendly access to relevant information using systems that support Statewide communication of data.
<ul style="list-style-type: none"> • Inconsistent policies and procedures across the State with unclear direction. 	<p>→</p> <ul style="list-style-type: none"> • Purchase to Payment Process supported by the consistent, Statewide application of appropriate policies and standards.

Conceptual Design



Performance Comparison



- 12,971 POs per year...many for low value items.
- 6500 AP transactions per FTE.
- No tracking of discounts available and taken.
- PO to AP process includes 9 handoffs, 5 re-keying, 7 approvals.
- Cost for Simple Procurement with a Purchase Order to Payment is \$45.
- Cost for a non-purchase order AP is \$5.

- Eliminate POs for low value purchases.
- 14,000 AP transactions per FTE.
- Discounts taken 100% of applicable opportunities.
- Purchase to Payment Process includes automated handoffs, single entry, 1 approval.
- Eliminate paper POs, automate processing, electronic matching -- Cost is \$25.00.
- Automated matching and EFT -- Cost is \$2.50.



Operating Within the Vision

The new Vision Theme of Empowerment and Accountability results in more knowledgeable and confident employees and fewer handoffs.

Characteristics	What Changes?	Benefits
# of Approvals	From: As many as 7 approvals for an item purchased on a purchase order. To: 1 electronically routed approval.	<ul style="list-style-type: none"> • Faster processing time • Fewer handoffs • Less expensive
Level of Knowledge of the Buyer	From: Narrow and focused functional knowledge. To: A broad process-wide perspective.	<ul style="list-style-type: none"> • Better understanding leads to better practices • Understanding of results and performance measures encourages desired behavior • More knowledgeable and confident employees make better decisions
Employee Motivation	From: Little job motivation. To: Ownership and accountability for results.	<ul style="list-style-type: none"> • Improved productivity • Improved procurement
Management Focus	From: Focusing on details and checking. To: Strategic analysis and planning.	<ul style="list-style-type: none"> • Better management decision making • Improved management of staff • Better identification of needs



Operating Within the Vision

The Vision Theme, Automated Systems, leads to labor savings, faster cycle times and reduced errors.

Characteristics	What Changes?	Benefits
Reconciliation	From: Manual and cumbersome. To : Electronic and automated.	<ul style="list-style-type: none"> • Labor savings • Faster cycle time • More discounts taken • Focus on value-added activities • Reduced paper filing and storage
Data Entry	From: Multiple entry for multiple systems. To: Single entry into Statewide integrated system.	<ul style="list-style-type: none"> • Labor savings • Reduced duplication of effort • Faster cycle time • Reduced errors • Access to common data Statewide
# of Handoffs	From: As many as 9 handoffs to purchase and pay for an item. To: Zero manual handoffs and electronic routing.	<ul style="list-style-type: none"> • Labor savings • Faster cycle time • Reduced errors



Operating Within the Vision

The Vision Theme, Efficient and Integrated Process, results in the elimination of re-keying, labor savings and more vendor early pay discounts.

Characteristic	What Changes?	Benefits
Process Integration	From: No integration between Purchase to Payment. To: Full process integration.	<ul style="list-style-type: none"> • Eliminates manual handoffs and re-keying • Various employees work together understanding each other's needs and reducing combative activities
Process Cycle Time	From: Long cycle times. To: Short cycle times.	<ul style="list-style-type: none"> • Improved ability to capture vendor discounts • Reduced time from order to delivery and payment
Accounts Payable Role	From: Manual reconciliation. To: Automated matching with manual exception processing.	<ul style="list-style-type: none"> • Focus employees on value-added activities • Labor savings
# Steps	From: 30+ steps to purchase and pay for an item. To: Fewer than 10 steps.	<ul style="list-style-type: none"> • Labor savings • Faster cycle time • Reduced redundancy



Operating Within the Vision

The Vision Theme, Effective Communication Infrastructure, leads to better prices, quality and service from vendors and more effective budget management.

Characteristics	What Changes?	Benefits
Vendor relationships	From: Closed adversarial relationships . To: Partnerships.	<ul style="list-style-type: none"> • Better understanding of State and Vendor needs • More unique and customized solutions • Lower prices • Better quality
Communication with vendors	From: Paper-based and slow communication. To: Rapid interactive communication based on EDI, EFT and the Internet.	<ul style="list-style-type: none"> • Better service • Clearer understanding of needs and capabilities • Faster interaction
Method of payment	From: Mailing warrants at \$5 each. To: Electronic Funds Transfer at less than \$2.50 each.	<ul style="list-style-type: none"> • Speeds up payments • Reduces manual processing • Reduce labor costs • Fewer errors
Management Information	From: Management information that is inflexible, old and difficult to obtain. To: Information that is current and accurate.	<ul style="list-style-type: none"> • Managers will be able to manage budgets more effectively in real-time • Better decision making



Operating Within the Vision

The Vision Theme, Consistent Application of Policies, results in increased knowledge transfer, the elimination of redundant activities and a focus on value-added.

Characteristics	What Changes?	Benefits
Knowledge Transfer	From: Poor knowledge transfer. To: Easy, full access to information.	<ul style="list-style-type: none"> • Increases exchange of knowledge and key learnings • Provides common background information
Simple Procurement	From: No consistency. To: Clear steps and enabling technology.	<ul style="list-style-type: none"> • Stream lined method for acquiring low value items • Eliminate redundant or unnecessary effort • Fast and easy to accomplish purchase
Complex Procurement	From: Little consistency. To: All complex procurement made with Purchasing Center of Excellence support and consultation.	<ul style="list-style-type: none"> • Common approach for all procurement • Focus purchasing professionals effort on high value purchases • Increased quality and reduced price
Policies	From: Policies not applied consistently. To: Consistent enforcement and application of policies.	<ul style="list-style-type: none"> • Elimination of unnecessary activities • Focus on value-added activities • Facilitates understanding of procurement on a Statewide basis



Operating Within the Vision

Characteristic	What Changes?	Benefits
<p>S</p> <p>Job Duties</p>	<p>From: Inconsistent and varied.</p> <p>To: similar job duties across agencies.</p>	<ul style="list-style-type: none"> • Allows for job sharing • Enables staff movement between agencies • Common evaluation framework
<p>Flexibility</p>	<p>From: Inflexible vendor relationships.</p> <p>To: Flexibility in developing relationships.</p>	<ul style="list-style-type: none"> • Contracts based on best value • Ability to develop long term relationships with vendor



Operating with the Vision

Employees

- Employees have the authority and tools to make purchasing decisions.
- Simple procurement is accomplished by the end-user utilizing procurement cards, electronic catalogs, and electronic communication with Vendors.
- Complex procurement is accomplished with the support and consultation of the Purchasing Center of Excellence and enabling technologies and processes.

Managers

- Managers utilize new performance measures and current, accurate data to manage employees and evaluate process performance.
- Managers use information for analysis and planning.

Purchasing Center of Excellence

- Purchasing professionals are continually trained and are responsible for transferring knowledge to employees.
- Purchasing professionals seek out the best solutions to meet agency needs.
- The Purchasing Center may be a virtual or physical organization, depending on customer requirements.
- Greater use will be made of Statewide price contracts in order to consolidate buying power

Vendors

- Vendors respond to rapidly delivered requests for goods and services.
- When preferable, Vendors proactively replenish needed supplies.
- Vendors utilize EDI and EFT technology to exchange information and money with the State.



Impacts and Implications

⇒ **Accounts Payable for purchase payments will be eliminated from its current form.**

- Automated matching of invoices to purchases will eliminate the need for manual invoice checking and input into the system.
- Electronic payment through EFT linked to the automated reconciliation eliminates the need for manual intervention to pay bills.

⇒ **Paper purchase orders will be eliminated.**

⇒ **Employees will be empowered to order simple procurements up to a value of \$5,000.**

⇒ **Restrictions on vendor relationships and vendor management will be eliminated allowing for contracts based on best economic value, quality, and timeliness through open and flexible contract terms and purchasing practices.**

⇒ **Purchasing Center of Excellence will develop Statewide Purchasing Policies that will be consistently applied.**



Business Case - Quantifiable Benefits

The State can take advantage of significant savings by embracing the vision of the Purchase to Payment Process and utilizing state of the market technologies and tools.

	SAVINGS	COMMENTS
Resources	\$ 960,000 - \$1,200,000	30 to 40 FTEs reduced at an average of \$32,000 per year
Operating average	\$ 240,000 - \$ 320,000	Operating costs for 30 to 40 FTEs at an cost of \$8,000 per FTE
Program	\$ 8,860,000 - \$ 13,290,000	2-3% of \$442,950,000 Operating Expense and Equipment Purchases
Total Annual Savings	\$ 10,060,000 - \$ 14,810,000	



Business Case - Quantifiable Investments

To take advantage of significant savings the State will need to make some additional one-time investments.

BUILDING BLOCKS	COSTS
Automated Bidding System	\$ 200,000 - \$ 300,000
EDI and EFT	\$ 2,000,000 - \$ 2,500,000
Barcoding	\$ 120,000 - \$ 240,000
Culture Change	\$ 400,000 - \$ 500,000
Total One-Time Investment	\$ 2,720,000 - \$ 3,400,000



Business Case - Net Benefit

The State stands to benefit even during the year it makes the investment in the enabling practices and technologies.

Total Annual Savings	→	\$ 10,060,000 to \$ 14,810,000
Total One-Time Investment	→	\$ 2,720,000 to \$ 3,400,000
Approximate Net Benefit in Year One	→	\$ 7,340,000 to \$ 11,410,000